

2006 PACT

OCTOBER - DECEMBER

Alabama's Prepaid Affordable
College Tuition Program



The Prepaid Affordable College Tuition Program (PACT)

The PACT Program is a Section 529 college savings program administered by Treasurer Kay Ivey's office. PACT is based on a simple concept – pay today for tomorrow's tuition.

During the enrollment period of October through December, you may purchase a contract for the prepayment of 128 semester hours of tuition and 8 semesters of qualified fee payments at any Alabama public college or university.

Features of the PACT Program include:

- Flexible payment options
- Use of benefits at private or out-of-state institutions
- Use of benefits in conjunction with scholarships
- Ability to transfer benefits to another member of the family
- Refund availability
- Simple process to use benefits

Other important questions are answered in this brochure. If you have questions, the PACT staff will be happy to talk with you (800-252-7228 or 334-242-7514), or you can visit our website at www.treasury.alabama.gov and click on the "College Savings" link.

PACT should be considered by anyone interested in securing a child's future through higher education.



NEW!
Enroll in PACT online at
www.treasury.alabama.gov!

Why Save for College?



Costs Are Rising...

-  **Projected Alabama public college tuition for a student entering college in the year 2024 is \$85,104.**

College Graduates Earn More...

-  **The typical full time worker in the United States with a college degree earns 62% more than those with only a high school diploma¹.**
-  **The typical bachelor's degree recipient can expect to earn about 73% more over his working life than the typical high school graduate earns over the same time period².**

Saving Avoids Debt...

-  **Recent estimates suggest that as many as 25% of college students may be relying on credit card debt to help finance their education³.**
-  **The typical student who borrows to finance a bachelor's degree graduates with \$15,500 of debt³.**



¹ "Education Pays Update" 2005

² "Education Pays" 2004

³ "Trends in College Pricing" 2005


2006 Alabama PACT Contract Pricing

<u>*Current Grade/Age</u>	<u>Projected Enrollment Year</u>	<u>Single Payment Plan</u>	<u>5-Year Monthly Payment Plan</u>	<u>Extended Monthly Payment Plan (1) Amount</u>	<u>Extended Monthly Payment Plan (1) Payments</u>
9th grade	2010-2011	\$22,112	N/A	\$627	40
8th grade	2011-2012	\$22,018	N/A	\$499	52
7th grade	2012-2013	\$21,917	\$442	\$420	64
6th grade	2013-2014	\$21,816	\$440	\$365	76
5th grade	2014-2015	\$21,715	\$438	\$326	88
4th grade	2015-2016	\$21,615	\$436	\$296	100
3rd grade	2016-2017	\$21,516	\$434	\$273	112
2nd grade	2017-2018	\$21,416	\$432	\$254	124
1st grade	2018-2019	\$21,318	\$430	\$239	136
Age 5	2019-2020	\$21,220	\$428	\$226	148
Age 4	2020-2021	\$21,122	\$426	\$215	160
Age 3	2021-2022	\$21,024	\$424	\$206	172
Age 2	2022-2023	\$20,928	\$422	\$198	184
Age 1	2023-2024	\$20,831	\$420	\$191	196
Infant	2024-2025	\$20,735	\$418	\$185	208
Infant born after 9/1/06	2025-2026	\$20,640	\$416	\$180	220


*If the beneficiary is currently in school, find his or her grade as of September 1, 2006. For purposes of this table, a beneficiary who is now in preschool or kindergarten is not considered to be in school. If the beneficiary is not in school find his or her age as of September 1, 2006.

(1) To calculate the total amount you will pay for your PACT contract on an extended monthly payment plan, multiply the total number of payments times the monthly payment amount. The total will be greater than the lump sum contract price. The monthly payments include finance charges. All plans include an account maintenance fee.


Getting Started

-  To purchase a contract, simply fill out an application on-line or the enclosed application and return it with the non-refundable \$100 application processing fee. To qualify for this year's rate, your application should be received or postmarked by December 31, 2006.





-  Students who are currently in the ninth grade or younger are eligible to be enrolled in the program, as are those born on or before December 31, 2006.




PACT Benefits

-  The PACT contract covers in-state public tuition for up to 128 semester hours, or the equivalent at institutions on a quarter or other academic term basis. PACT will also pay qualified fees for 8 registrations on a semester system, or the equivalent number for colleges and universities on another academic term basis.







-  If a student chooses to attend a private or out-of-state institution, a weighted average of tuition and qualified fees at the Alabama four-year public institutions, calculated annually, will be paid to the private or out-of-state school. Each semester the institution will invoice PACT and payment will be made based on this average.
-  Qualified fees are those designated by the PACT Board as fees that all students are required to pay regardless of their choice of study. A list of these fees is available by visiting our website at www.treasury.alabama.gov and clicking on the "College Savings" link.






Contract Ownership

-  Only one purchaser may be the owner of the contract. If the contract is cancelled, the owner is entitled to the refund. However, someone other than the owner may make contract payments.
-  A successor account owner may be named. This individual would become the account owner upon the death of the original purchaser.
-  Ownership of the contract may be transferred.

Contract Payments

-  Three types of payment plans are available:
 1. A single, lump-sum amount.
 2. A five-year plan of 60 monthly payments. This plan is only available for students in the seventh grade or below.
 3. An extended plan of monthly payments until the student reaches college age.
-  Select a payment plan on your application. Once your application has been processed, the PACT program will send payment instructions. The first payment under any of the payment options will be due on February 1, 2007. Monthly payments may be made with a coupon book or by automatic deductions from your bank account. You may also ask your employer to establish an automatic payroll deduction for your PACT payments.
-  You may pay off the balance remaining on your contract at any time. The pay off amount will be less than the total of your remaining monthly payments.
-  The payment due date for monthly payments is the 1st day of each month.

Answers to Many of Your Questions

-  Using PACT benefits is simple—the PACT program makes payments directly to the institution.
-  A PACT student may transfer from one college to another. Unlimited transfers are permitted.
-  Annually, the PACT program provides a statement of your account.
-  PACT is a voluntary program and the contract can be cancelled at any time by the purchaser.
-  Contract benefits can be transferred to an immediate family member. However, the benefits must be used within the same ten years as the original beneficiary. At least fifteen hours of benefits must be remaining in order to transfer to another beneficiary.

**DISCLOSURE STATEMENT AND PROGRAM DESCRIPTION OF THE ALABAMA PREPAID AFFORDABLE
COLLEGE TUITION (PACT) PROGRAM
2006 ENROLLMENT PERIOD**

This Disclosure Statement provides important information concerning certain material risks associated with the purchase of PACT Contracts. Contract Purchasers are strongly urged and expected to read this disclosure statement in its entirety before purchasing a PACT Contract.

The obligations of PACT are limited obligations payable only from proceeds received from PACT Contract sales and earnings from investment performance. Neither the Contract Purchaser nor Designated Beneficiary has any recourse against the Treasurer, the Board, the PACT Program, any other state or federal government agency, or the State of Alabama in connection with any obligations arising out of the PACT Contracts. The obligations of the PACT Contract are not backed by the full faith and credit of the State of Alabama.

This disclosure statement and program description (the "Disclosure Statement") of the Alabama Prepaid Affordable College Tuition Program ("PACT") is provided in connection with the offering for purchase of Prepaid College Tuition Contracts ("PACT Contracts").

Those persons who are not considering the purchase of a PACT Contract during the 2006 Enrollment Period may gain an understanding of PACT by reading this Disclosure Statement. However, persons desiring to purchase a PACT Contract in a subsequent year should be aware that the terms and features of PACT and the PACT Contract in any subsequent year may differ, even materially, from the terms and features described in this Disclosure Statement. Information in this Disclosure Statement is believed to be accurate as of its date and is subject to change without notice. For PACT Contracts purchased after 2004, each Disclosure Statement supersedes and replaces any earlier dated Statement. Contract Purchasers also should be aware and consider that no representations or assurances are made by this Disclosure Statement or otherwise, that PACT Contracts will be offered in any subsequent year.

PACT PROGRAM INTRODUCTION

Pursuant to the Code of Alabama, Section 16-33C-1 through 16-33C-13, the Alabama Legislature created the PACT Program and Trust Fund by enactment of the Wallace-Folsom Prepaid College Tuition Trust Fund Act on May 17, 1989, and has subsequently amended it (the "Act"). Under the Act, PACT is an agency and instrumentality of the State of Alabama. The purpose of PACT is to allow natural persons who are at least 19 years of age and citizens or residents of the United States and certain organizations to prepay a specific number of undergraduate semester hours of tuition and qualified fees of a Designated Beneficiary at an eligible educational institution through the purchase of PACT Contracts.

The Treasurer and the Board

State Treasurer Kay Ivey is Chairperson of the PACT Board. Under the Act, the ten-member Board oversees the administration of PACT and its members act as the trustees of the PACT Trust Fund. The Board has delegated day-to-day administration of PACT to the Treasurer.

The PACT Trust Fund

The PACT Trust Fund ("Trust Fund") holds the assets of PACT. The assets are derived from PACT Contract payments made by Purchasers, and earnings thereon, if any. The purpose of the Trust Fund is to pay future PACT Contract benefits and administrative expenses. For investment purposes, assets in the Trust Fund are commingled and are not segregated by individual PACT Contract.

The PACT Administrative Fund

The PACT Administrative Fund ("Administrative Fund") holds administrative fees paid by Contract Purchasers. The purpose of the Administrative Fund is to pay outstanding operating expenses of administering PACT. Gross earnings on Trust Fund principal may be directly used to supplement balances in the PACT Administrative Fund, as the board deems necessary.

Purchasing a PACT Contract

Applications for the purchase of a PACT Contract on behalf of a Designated Beneficiary are available at the State Treasurer's office located in the RSA Union Building, 100 North Union Street, Suite 660, Montgomery, Alabama 36130 or online at <http://www.treasury.alabama.gov>. To purchase a PACT Contract, a Contract Purchaser must file an Application with the State Treasurer, who is authorized to enter into PACT Contracts with Contract Purchasers on behalf of the Board. By completing and signing an application, the Contract Purchaser acknowledges that he/she has received and read this Disclosure Statement and agrees to be bound by this Disclosure Statement and the Program Rules.

PACT Contract Types

The PACT Contract available is the Four-Year University Contract. Risk factors are included herein. Contract Purchasers are strongly advised to thoroughly read the Program Rules.

PACT Contract Payments and Distributions

PACT Contract payments can be made by check, automatic deduction from a checking or savings account, or payroll deduction (where available). Distributions for the payment of PACT Contract benefits will only be made to an Eligible Educational Institution after receipt of an acceptable invoice.

PACT Accounts

A PACT account is established for each PACT Contract and Designated Beneficiary. Once an account is paid in full and the projected enrollment year of the original Designated Beneficiary has been reached, benefits are made available. Each account is established with a specific number of semester hours of tuition and Qualified Fee payments. The Designated Beneficiary has ten years from the Projected Enrollment Year to use PACT Contract benefits.

PACT Contract Interpretation

All PACT Contracts will be construed and interpreted according to the laws of the State of Alabama.

DEFINITIONS

"Board" means the ten-member Board of Trustees of the PACT Program.

"Cancellation" means discontinuation of the Contract Purchaser's participation in the PACT Program and the Designated Beneficiary's right to receive PACT Contract Benefits.

“Code” means the Internal Revenue Code of 1986, interpreted in accordance with the regulations promulgated thereunder, as amended from time to time.

“Contract Purchaser” means any adult person, corporation, trust, charitable organization or other entity eligible to purchase a PACT Contract, and who is obligated to make PACT Contract payments in accordance with the PACT Contract. The Contract Purchaser (and not the Designated Beneficiary or any person or entity that makes a payment) retains ownership of the PACT Contract.

“Designated Beneficiary” means the individual named in the PACT Contract to receive the PACT Contract benefits.

“Eligible Educational Institutions” generally includes accredited, post-secondary educational institutions offering credit toward a bachelor’s degree, an associate’s degree, a graduate level or professional degree, or another recognized postsecondary credential, and certain proprietary institutions and post-secondary vocational institutions as set forth in the Code. These institutions must be eligible to participate in certain federal student financial aid programs.

“Immediate Family Member” means any of the following relations of the Designated Beneficiary as defined under the Code:

A son or daughter, or descendant of either

A stepson or stepdaughter

A brother, sister, stepbrother, or stepsister

The father or mother, or an ancestor of either

A stepfather or stepmother

A son or daughter of a brother or sister

A brother or sister of the father or mother

A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law or sister-in-law

The spouse of the Designated Beneficiary or the spouse of any of the foregoing individuals; or

A first cousin.

“PACT Contract” consists of the following documents: the Application signed by the Contract Purchaser, the Participation and Payment Schedule, the Disclosure Statement and PACT Rules.

“Participation and Payment Schedule” means the document defining the Projected College Entrance Date and frequency, duration, amount and due date of PACT Contract payments based on information provided by the Contract Purchaser in the Application.

“Program Rules” means the rules promulgated by the Board to implement the PACT Program that may be amended from time to time as determined by the Board.

“Projected College Entrance Date” means the academic school year following the qualified Designated Beneficiary’s projected high school graduation as specified on the Participation and Payment Schedule and is the earliest date for the utilization of PACT Contract benefits.

“Qualified Fees” means those fees approved by the Board which are required as a condition of enrollment for all students attending the Postsecondary Institution in which the Designated Beneficiary is enrolled.

“Qualified Tuition Program” means a higher education savings program or prepaid tuition program that qualifies for treatment under the Code.

RISK FACTORS AND OTHER CONSIDERATIONS

Certain risk factors relating to participating in PACT are described below.

No Guarantee; Not Insured. Participating in PACT entails risk of return. The Trust Fund and investments under PACT are not bank deposits, and are not debt obligations of, or insured or guaranteed by the FDIC, the State, the Board, the Treasurer, the PACT Program, or any other state or federal governmental agency. None of these entities or persons has any legal or moral obligation to ensure the ultimate payout with the respect to the purchase of a PACT Contract.

Cancellation or Termination: If a PACT Contract is cancelled or expires, the Contract Purchaser may request and, subject to the ability of the Trust Fund to pay a refund, receive a refund equal to the Redemption Value of the PACT Contract. The Board, in its discretion, may pay any refund in installments rather than in a lump sum in which case the total refund amount would not be immediately available to the Contract Purchaser.

Lack of Secondary Market: No known market exists for resale of PACT Contracts.

No Assurance of Admission to Eligible Educational Institutions: Participation in PACT does not constitute a promise, commitment, or guarantee that a Designated Beneficiary: (a) will be accepted as a student by any Eligible Educational Institution; (b) if accepted, will be permitted to continue as a student; (c) will be treated as a state resident for tuition and Qualified Fees purposes, including Alabama resident status; (d) will graduate from any Eligible Educational Institution; or (e) will achieve any particular treatment under applicable state or federal financial aid programs. If the Designated Beneficiary is not admitted to an Eligible Educational Institution, for any reason, or fails to register for less than the maximum number of academic credit hours for which PACT Contract benefits are payable, for any reason, the Designated Beneficiary likely will realize less than all of the PACT Contract benefits for which he or she otherwise may have been eligible. Also, if a Designated Beneficiary matriculates at an Alabama in-state institution and does not satisfy the institution’s residency requirements, the Designated Beneficiary will be solely responsible for any amounts owed to the institution beyond the payment of in-state tuition and Qualified Fees prescribed in the PACT Contract.

Use of Benefits at Eligible Educational Institutions: If PACT Contract benefits are used at private or out-of-state institutions, payment may not cover the cost of tuition and Qualified Fees and the Designated Beneficiary will be solely responsible for any amounts owed to the institution beyond the payment prescribed in the PACT Contract.

PACT Contract Termination: For a Four-Year University PACT Contract, the PACT Contract terminates when all of the tuition hours are utilized, or when the Designated Beneficiary receives a Baccalaureate degree, whichever comes first. If the Designated Beneficiary receives a degree and the payment of benefits does not exceed the PACT Contract purchase amount, the Contract Purchaser may not realize the full benefit of the prescribed PACT Contract and no refund is available. All PACT Contracts terminate ten years from the original Designated Beneficiary’s Projected College Entrance Date.

Substitution of Designated Beneficiary: The Code allows beneficiary substitution to certain members of the immediate family. Substitution of a Designated Beneficiary will not result in any refund. Substitution of a Designated Beneficiary with a Projected College Entrance Date that is earlier than the date of the Designated Beneficiary shall require the payment of additional amounts based on actuarial calculations.

No Entitlement to Investment Returns: Contract Purchasers nor Beneficiaries are entitled to receive investment returns from the Trust Fund as a result of favorable Trust Fund investment performance in excess of current obligations and actuarially determined future obligations. Any such favorable investment performance, if achieved by the Trust Fund, will enhance the likelihood that PACT's Contract obligations will be performed, but will not result in other direct or indirect benefit to Contract Purchasers or Beneficiaries. Alabama law provides that all money held by the Trust Fund in excess of the current operational expenses of the program and the current amount of PACT's projected future liabilities must be retained in the Trust Fund.

Inherent Uncertainty of Actuarial Projections: The Board has engaged the assistance of actuarial experts to project the ability of the Trust Fund to meet PACT's obligations and to assist the Board in establishing the pricing for new PACT Contracts each year. In this regard, various actuarial assumptions are employed to evaluate the assets and liabilities of the Trust Fund. In many cases, the actuarial analysis is highly sensitive to changes in one or more of these assumptions. The Board, in consultation with its actuarial experts, has developed the current assumptions, monitors such assumptions as new historical data becomes available, reviews such assumptions annually and revises as deemed necessary. Because actuarial determinations necessarily involve predictions regarding future events, no assurance can be given that such assumptions will prove to be accurate or that PACT will be able to satisfy its future obligations. Annually, the actuarial expert prepares a report detailing all assumptions. This report may be viewed on the Treasurer's website www.treasury.alabama.gov.

Investment Risks: As of December 30, 2005, assets in the Trust Fund are invested in various asset classes as follows:

Asset Class	Allocation	Target
Large Cap Domestic Equity	41.4%	46%
Small Cap Domestic Equity	8.9%	9%
International Equity	21.6%	15%
Domestic Fixed Income	27.3%	30%
Cash & Equivalents	.8%	0%

Certain risks are associated with each investment class. The Board may change the amount of dollars allocated to a specific asset class, or add, eliminate or change the classes. To view the Investment Policy adopted by the Board, visit the website www.treasury.alabama.gov.

Limited Use of Qualified Distributions. Payment is made directly to the Eligible Education Institution upon receipt of an acceptable invoice from the institution for tuition and Qualified Fees. No other qualified distributions are allowed.

Status of Federal and State Laws and Regulations Governing PACT: The Act, the Rules, state and federal law, and regulations governing the operation of PACT may change in the future. In addition, Alabama law and federal law relating to the funding of higher education expenses and tax matters are also subject to change. No assurance can be given that such changes in law will not adversely affect the value of participation in PACT. No one, including the State, the Board, or the Treasurer is required to continue the operation of PACT.

Lack of Certainty/Adverse Tax Consequences: The 2001 Tax Act made substantial changes to the federal tax treatment of Qualified Tuition Programs by permitting qualified distributions to be federally tax free. The U.S. Congress could enact legislation that adversely affects the federal tax consequences associated with participation in PACT. The Board intends to modify PACT, as necessary, to enable PACT to meet the requirement of the Code. No assurance can be given that any such changes will not have a retroactive effect. You should consult a qualified tax advisor about Alabama and Federal tax issues in relation to PACT.

Financial Aid/Student Loans: The receipt of PACT Contract benefits by a Designated Beneficiary may affect a Designated Beneficiary's qualification for or receipt of financial aid. The receipt of PACT Contract benefits should not impact the Designated Beneficiary's qualification for or receipt of merit-based financial aid. There can be no assurance, however, that the PACT Contract benefits will not be considered either explicitly or implicitly in determining whether a Designated Beneficiary is entitled to or will receive a merit-based scholarship. Furthermore, the receipt of or potential for receipt of PACT Contract benefits may affect the ability of a Designated Beneficiary to receive private or student loans. Such receipts or potential for receipts may be considered financial resources which preclude the Designated Beneficiary from receiving private or student loans, especially if the loans are in any way need-based. Such considerations may also preclude the Designated Beneficiary from receiving more favorable interest rates or repayment options.

Other Investment Alternatives: The Board and the Treasurer make no representations regarding the appropriateness of PACT as an investment alternative. A number of other Qualified Tuition Programs, including the Alabama Higher Education 529 Fund, and other education savings and investment programs, including Coverdell Education Savings Accounts, are currently available to prospective Contract Purchasers. These programs may offer benefits, including investment options and investment control, that are not available under PACT. Accordingly, prospective Contract Purchasers should consider these other investment alternatives before purchasing PACT.

Other Considerations: An investment in PACT may not be the appropriate investment program for all investors. You should evaluate PACT in the context of your overall financial situation, investment goals, time horizon, higher education goals, other resources and needs (such as liquidity), and other investments. You may want to discuss these issues with a financial and tax advisor.

ADMINISTRATIVE FEES

Application Fee	\$100
Account Maintenance Fee	\$3/monthly account; \$100/ lump sum accounts
Cancellation Fee	\$75
Beneficiary Substitution Fee	\$55
Change of Contract Purchaser Fee	\$20
Enrollment in a Private/Out-of-State Institution Fee	\$25
Late Payment Fee	\$15
Returned Item Fee	\$15
Document Replacement Fee	\$7 per document
Change in Payment Schedule Fee	\$20

MANAGEMENT OF THE TRUST FUND

Under the Act, the Trust Fund is to be administered by a ten-member Board. The ten members of the Board are to consist of the following persons: (1) the Lieutenant Governor (an ex officio member) or his/her designee; (2) the Executive Director of the Alabama Commission on Higher Education (an ex officio member) or his/her designee; (3) a representative from the Council of College and University Presidents; (4) the State Treasurer (an ex officio member); (5) the Chancellor of the Alabama Department of Postsecondary Education (an ex officio member) or his/her designee; (6) a person appointed by the Speaker of the State House of Representatives; (7) a person appointed by the Lieutenant Governor; (8) a person appointed by the State Treasurer; (9) two persons appointed by the Governor.

No person holding a full-time office or position of employment with the State, any county or municipality in the State, any educational institution, or any instrumentality, agency, or subdivision of the foregoing, is eligible for appointment to the Board. The members of the Board serve without compensation, but are entitled to reimbursement for each day's official duties of the Board at the same per diem and travel rate as is paid to State of Alabama employees. Appointed members serve four-year terms of office and are eligible for reappointment.

The current members of the Board are listed in the table below.

<u>NAME</u>	<u>EXPIRATION OF TERM</u>
Kay Ivey, Chairman Treasurer of the State of Alabama State Capitol S-106 Montgomery, Alabama 36130	Ex Officio
Ricky Jones, Vice Chairman Vice President, Andalusia Distributing Company, Inc. P.O. Box 51 Andalusia, Alabama 36420	July 19, 2007
Lucy Baxley Lieutenant Governor of the State of Alabama 11 South Union Street, Suite 725 Montgomery, Alabama 36104	Ex Officio
Russell Buffkin Attorney P.O. Box 2767 Mobile, Alabama 36652	July 19, 2006
Willie Huff Chairman, ABI Capital Management 111 19th Street North, Suite 200 Birmingham, Alabama 35203	July 19, 2008
Dr. Thomas Cortis Chancellor of the Alabama Department of Postsecondary Education 410 Adams Avenue, Suite 290 Montgomery, Alabama 36130	Ex Officio
Ed Lewis President, E.L. Lewis & Company, Inc. 750 Wrights Mill Road Auburn, Alabama 36830	July 19, 2009
Dr. Gregory Fitch Director of the Alabama Commission On Higher Education 100 North Union Street, Suite 724 Montgomery, Alabama 36104	Ex Officio
Dr. Harold McGee President Emeritus, Jacksonville State University P.O. Box 897 Jacksonville, Alabama 36265	July 19, 2009
Ed Sherling President, Ed Sherling Ford P.O. Box 311450 Enterprise, Alabama 36331	July 19, 2007

The Board is authorized to employ private sector firms to provide investment management, accounting, recordkeeping services, actuarial services, and to provide other services relating to PACT.

The payments received from Contract Purchasers are deposited in the Trust Fund, and the Board as authorized in the Act invests the Trust Fund's assets. The amounts received may be invested only in instruments, obligations, securities and properties that are deemed appropriate by the Board and that constitute legal investments for the investment of public funds in the State of Alabama, including legal investments for the State Treasurer, and the Alabama Trust Fund. The Trust Fund's assets are subject to market factors and fluctuations affecting their value.

The Board is authorized to contract for the lump sum or installment prepayment of tuition costs for the benefit of a Designated Beneficiary. The price to be paid by a Contract Purchaser under a PACT Contract is determined annually by the Board based on actuarial calculations, which employ various assumptions.

FINANCIAL AUDIT

The Trust Fund's fiscal year begins on October 1 of each year and ends on September 30 of the following year. The Board has engaged the accounting firm of Jackson, Thornton & Co., P.C. to audit its balance sheet as of September 30, 2005, and the related statements of revenues, expenses, and changes in retained earnings and statement of cash flows for the year ended September 30, 2005. Jackson, Thornton & Co., P.C. has issued its independent auditor's report to the Board. A copy of such report, along with the financial statements and accompanying footnotes of the Trust Fund, are available at the treasurer's website at www.treasury.alabama.gov, or by contacting the Treasurer's Office.

Annual Investment Rates of Return

Following are the annual rates of return for total Trust Fund investments. The annual rates of return are computed by taking into account current income, realized and unrealized gains and losses, and investment fees and expenses for the Trust Fund's aggregate investment portfolio.

12 Months ended September 30	Investment Return Per Cent
1991	13.8
1992	15.6
1993	14.8
1994	0.4
1995	17.4
1996	15.0
1997	26.6
1998	2.7
1999	17.9
2000	14.9
2001	-13.50
2002	-10.12
2003	17.25
2004	9.92
2005	10.64

SUMMARY OF VALUATION ACTUARIAL ASSUMPTIONS

Funding of PACT is derived entirely from PACT Contract payments and the investment income earned by the Trust Fund. Annually, the Board reviews the actuarial soundness of the Trust Fund. The projected amount of PACT's future PACT Contract obligations is determined by calculating expected future Alabama tuition and Qualified Fee costs based upon current costs and certain assumptions regarding future periods. Similarly, the Trust Fund's projected assets are determined by calculating expected future assets based upon the actual current value of the Trust Fund's assets and various assumptions regarding future events, such as future rates of return. The projected obligations are then compared with the projected asset values to determine if an actuarial deficit is anticipated.

The projections and valuations are based on various actuarial assumptions. Because the actuarial valuation process relies on such assumptions, actual results may differ, even materially, from the projected results based on those actuarial assumptions. No representation is made or assurance given that future investment results of the Trust Fund will be sufficient for PACT to satisfy its current or future obligations. If a funding shortfall occurs for any reason, the State of Alabama, the Treasurer nor the Board is obligated to restore, or otherwise remedy, any such funding shortfall of the Trust Fund.

The Board engaged the firm of Actuarial Resources Corporation to render certain actuarial services. In its report to the Board dated January 16, 2006, for the year ended September 30, 2005 (the "2005 Actuarial Report"), the Board's actuarial consultant reviewed and recommended the assumptions underlying the analysis contained in the 2005 Actuarial Report for the purpose of projecting the expected financial results of the Trust Fund.

The key assumptions underlying the actuarial analysis of the Trust Fund are reevaluated by the Board annually, in consultation with its actuarial consultants. As part of this process, the Board gathers and reviews historical data concerning these assumptions. This process has tended to confirm the reasonableness of the material assumptions. Although the Board, in consultation with its actuarial consultants, monitors and revises the actuarial assumptions, there can be no assurance that such assumptions will continue to compare favorably to actual experience. The actuarial report may be viewed in its entirety on the Treasurer's website www.treasury.alabama.gov, or you may call the Treasurer's Office to receive a copy.

PURCHASING A PACT CONTRACT, PACT CONTRACT PAYMENTS, ACCOUNTS AND DISTRIBUTIONS

These topics are covered in detail in the Program Rules attached to this Disclosure Statement.

SECURITIES CONSIDERATIONS

The Board has not heretofore requested a "no action" letter from the United States Securities and Exchange Commission, nor has it sought any type of ruling or advisory opinion from the Alabama Securities Commission as to whether the PACT Contracts constitute securities. PACT Contracts have not been registered under the Securities Act of 1933 in reliance on an exemption from registration available for obligations issued by a public instrumentality of a state.

TAX CONSIDERATIONS

The following discussion summarizes certain aspects of the Federal and State income, gift, estate and other tax consequences relating to PACT. This discussion does not provide individualized financial or tax advice; does not address state income taxes that may be imposed by any state other than Alabama; and does not address local taxes that may be imposed by Alabama or any other state or locality.

Caveats with Respect to Tax Discussion: This summary is not exhaustive, and is not intended as tax advice. In addition, no assurance can be given that the IRS will accept the conclusions in this Disclosure Statement, or, if challenged by the IRS, that these conclusions would be sustained in court. You should consult a qualified tax advisor regarding the application of the relevant tax law to your particular financial situation.

State of Alabama Taxes: With respect to Alabama residents, PACT Contract payments are not deductible for Alabama income tax purposes. Earnings on the investment of PACT Contract payments are not subject to Alabama income taxes and will not be included in the Alabama taxable income of the Designated Beneficiary or Contract Purchaser. Qualified withdrawals from PACT are exempt from taxation by the State of Alabama. You should consult a qualified tax advisor about this and other tax consequences, including estate and any local taxes that may apply.

Other State and Local Tax Consequences: Contract Purchasers and Designated Beneficiaries who are subject to taxation by jurisdictions other than Alabama should consult a qualified tax advisor to determine the state and local income, gift, estate, and other tax consequences of participation in PACT. The tax consequences of participation vary from state to state. Other Qualified Tuition Programs and education savings and investment programs may offer state tax benefits, including deductions or exclusions from income, that are not available under PACT. Depending upon the applicable state laws, favorable state tax treatment for investing in a Qualified Tuition Program may be limited to investments made in a Qualified Tuition Program offered by the Contract Purchaser's or Designated Beneficiary's home state.

Taxable Distributions: The earnings portion of any PACT Contract cancellation refund is includible in computing the Contract Purchaser's taxable income.

Tax Penalties on PACT Contract Cancellation Refunds: The receipt of a refund by the Contract Purchaser will, except as provided below, also be subject to additional tax penalties in the form of an additional federal income tax of 10% on the earnings portion of the refund that is included in taxable income. The additional 10% federal income tax will not apply, however, if the refund is:

- made after the death of the Designated Beneficiary to the extent permitted by rules and regulations of the IRS,
- attributable to the Designated Beneficiary being disabled (within the meaning of Section 72(m)(7) of the Code),
- made on account of a scholarship to the extent the amount of the refund does not exceed the amount of the scholarship,
- an amount includible in income solely because of the reduction in the amount of qualified higher education expenses attributable to the amount of such expenses taken into account in determining the allowed amount of Hope Scholarship and Lifetime Learning Credits.

Change in Designated Beneficiary, Rollovers between Accounts, and Transfer or Rollovers Between Qualified Tuition Programs: A Contract Purchaser may change the Designated Beneficiary or rollover a refund to another Designated Beneficiary. The earnings portion of the refund will not be subject to federal income tax, if:

- the new Designated Beneficiary is an Immediate Family Member of the prior Designated Beneficiary, and
- in the case of a rollover, such rollover was made within 60 days of the refund.

A Contract Purchaser may rollover or transfer a refund to another Qualified Tuition Program for a different or the same Designated Beneficiary. The earnings portion of the refund will not be subject to federal income tax if:

- the new Designated Beneficiary is an Immediate Family Member of the prior Designated Beneficiary,
- the rollover was made within 60 days of the refund,
- in the case of a transfer or rollover to an account of the same Designated Beneficiary, the transfer or rollover does not occur within 12 months of a previous transfer or rollover to a Qualified Tuition Program for the benefit of the same Designated Beneficiary.

The Contract Purchaser is responsible for determining whether the earnings portion of a transfer or rollover to PACT or to another Qualified Tuition Program meets the above rules for exclusion from income for tax purposes, for substantiating the facts relating to the transfer or rollover to the IRS to the extent required by the IRS, and for reporting for federal income tax purposes any amount of earnings that is attributable to the transfer or rollover that must be included in income. As of the date of this Disclosure Statement, the IRS has not issued guidance with respect to the manner in which the Contract Purchaser shall account for transfers or rollovers to other Qualified Tuition Programs, and to the coordination of such transfers and rollovers with other transfers and rollovers for the same Designated Beneficiary. In addition, a transfer or rollover from an account in another Qualified Tuition Program may have adverse tax consequences to you, including the recapture of previously allowed state income tax deductions and the loss of other state tax benefits. You should consult with a qualified tax advisor regarding the application of the relevant tax law to your particular circumstances.

Federal Gift and Estate Taxes: Contributions to PACT Contracts are considered completed gifts for federal estate and gift tax purposes. Generally, if the Contract Purchaser dies while there is monetary value of the PACT Contract, the value of the PACT Contract will not be included in the Contract Purchaser's estate (except in the situation described below relating to the gift tax exclusion election for contributions exceeding the limits applicable for any one year). However, refunds received on account of the death of the Designated Beneficiary are, or may be, included in the gross estate of the Designated Beneficiary for federal estate tax purposes. The foregoing is not individualized tax advice and every Contract Purchaser is strongly advised to obtain qualified independent financial and/or tax advice.

PACT Contract payments made are potentially subject to federal gift tax payable by the Contract Purchaser. Generally, if a Contract Purchaser's payment for a Designated Beneficiary in a single year, together with all other gifts by the Contract Purchaser to the Designated Beneficiary in that year, are less than the gift tax annual exclusion amount the PACT Contract payments may not result in federal gift tax liability for the Contract Purchaser. The foregoing is not individualized financial or tax advice. Every Contract Purchaser is strongly advised to obtain qualified independent financial and/or tax advice.

If a PACT Contract is transferred to a Successor Account Owner, there could be federal gift or estate tax consequences. You should consult a qualified tax advisor regarding such transfer.

Hope Scholarship and Lifetime Learning Credits: You may be able to claim a Hope Scholarship credit or a Lifetime Learning Credit in the same year in which you receive PACT Contract Benefits for a Designated Beneficiary. You should consult a qualified tax advisor regarding the availability of these credits.

MISCELLANEOUS

Reporting: PACT will provide an annual statement of your account. PACT is required by law to report to the IRS refunds and qualified distributions. The Contract Purchaser is required to provide information needed to comply with any legal reporting requirements.

The Contract Purchaser/Designated Beneficiary is responsible for filing federal and state tax returns and any other reports required by law.

Special Petition: Any Contract Purchaser, corporation, or organization desiring to petition for relief from the Rules dictated herein may do so by filing a notarized written petition to the Board.

Amendment of the Rules: The Board may promulgate such rules as are deemed necessary to implement the PACT Program and may amend such Rules. Annually, the Rules will be published as part of the Disclosure Statement and made available at the Treasurer's website. It is the responsibility of the Contract Purchaser to review the Rules from year to year for amendments or additions.

How to Contact PACT: PACT is located in the RSA Union Building, 100 North Union Street, Suite 660, Montgomery, Alabama 36130. Brochures and applications are available from www.treasury.alabama.gov and the Treasurer's office. If you have any questions about PACT, please call 800-252-7228 or 344-242-7514.

PACT PRIVACY NOTICE

PACT respects the right to privacy. We also know that Contract Purchasers expect us to conduct business in an accurate and efficient manner. To do so, we must collect and maintain certain nonpublic personal information about the Contract Purchaser and Designated Beneficiary. This is information we collect from Contract Purchasers on the application(s) or other forms, and from the transactions Contract Purchasers make with us or the PACT Records Administrator. We do not disclose any nonpublic personal information about you except as permitted by law. For instance, to effect transactions that you request or authorize, we may disclose information to companies that perform services on our behalf, such as printers. These companies will use this information only for the services for which we hired them, and are not permitted to use or share this information for any other purpose. To protect your nonpublic personal information internally, we permit access to it only by authorized employees, and maintain physical, electronic and procedural safeguards to guard this information.

2006 PACT RULES

SECTION 1 DEFINITIONS

Additional definitions and a list of Administrative Fees are available in the Disclosure Statement.

1.00 “Actuarial Assessment” means a contract amount assessed to compensate the Trust Fund for loss of earnings. For an unpaid or partially paid lump sum account, this amount will be 1% of the outstanding balance per month after the payment due date. For the reinstatement of a Monthly Payment Plan the Actuarial Assessment is the difference between the future value of the prescribed monthly payments and the future value of the payments actually made by the Contract Purchaser. The Actuarial Assessment for a change from the Extended Payment Plan to the 5-Year Payment Plan is the difference between the future value of the PACT Contract payments of each plan.

1.01 “Contract – Four-Year University” - means PACT benefits for the payment of Alabama instate public undergraduate tuition of not more than 128 semester hours and payment of Qualified Fees for not more than eight (8) registrations on a semester system at all Eligible Educational Institutions.

1.02 “Current Tuition Value for the Four-Year Universities” means the weighted average (by resident headcount) of in-state tuition and Qualified Fees for the previous fall term (calculated annually on January 1) at the Alabama four-year public postsecondary institutions.

1.03 “Four-Year Universities” means Alabama regionally accredited public postsecondary educational institutions offering credit that leads to, at a minimum, a baccalaureate degree.

1.04 “Interest” means the average of the passbook savings interest rates paid by the five largest banking institutions in the State of Alabama as of September 30th of each year.

1.05 “Matriculation” means the process of enrolling and attending an institution of higher education.

1.06 “Qualified Fees” means those fees approved by the Board which are required as a condition of enrollment for all students attending the Eligible Educational Institution in which the Designated Beneficiary is enrolled. A list of Qualified Fees for Alabama public institutions is available at www.treasury.alabama.gov.

1.07 “Redemption Value” means the sum of PACT Contract payments made, less any Administrative Fees and benefits paid, plus Interest, as of the date of cancellation.

1.08 “Substitute Beneficiary” means an Immediate Family Member of the Designated Beneficiary as defined by the Internal Revenue Code of 1986 and named by the Contract Purchaser to receive, in place of the originally named Designated Beneficiary, the benefits provided under the PACT Contract.

1.09 “Successor Account Owner” means an individual, named by the Contract Purchaser, who meets the requirements to be a Purchaser and becomes the owner of the PACT Contract upon the death of the Contract Purchaser.

SECTION 2 ENROLLMENT

2.00 PACT Enrollment Period — A PACT Contract may be purchased during the enrollment period which is October 1 through December 31. Applications accepted after the enrollment period will require applicable late fees and an Actuarial Assessment.

2.01 Application — Any individual, corporation, trust, charitable organization, or other entity desiring to enter into a PACT Contract on behalf of a Designated Beneficiary must submit a completed and signed application during the enrollment period. A PACT application may be obtained from the Treasurer’s website at www.treasury.alabama.gov or by calling PACT at 1-800-ALA-PACT or 334-242-7514.

2.02 Participation and Payment Schedule — After review and acceptance of the application, the Contract Purchaser will be mailed a Participation and Payment Schedule which details information submitted in the application. It is the Contract Purchaser’s responsibility to verify the accuracy of this information and request any applicable changes within 60 days of receipt.

2.03 Projected College Entrance Date – At the time of application, the Designated Beneficiary’s Projected College Entrance Date corresponds to the beneficiary’s current age and/or grade as provided on the application. This date is provided in the Participation and Payment Schedule and should be verified by the Contract Purchaser. The Contract Purchaser may request a change in the Projected College Entrance Date by completing a Certification Form within 60 days of receipt of the Participation and Payment Schedule. Thereafter, a written request should be submitted to change the Projected College Entrance Date. Additional PACT Contract payments, as well as an Actuarial Assessment, will be applied if the date is changed to an earlier year.

SECTION 3 THE PACT CONTRACT

3.00 General — The PACT Contract shall consist of the completed application signed by the Contract Purchaser, the Participation and Payment Schedule, and the Disclosure Statement and Rules.

3.01 Contract Benefit — The Four-Year University Contract provides 128 semester hours of Alabama undergraduate public tuition and 8 semesters of Qualified Fee payments.

3.02 Contract Term — Benefits under a PACT Contract may be received for up to a ten (10) year period after the Projected College Entrance Date of the original Designated Beneficiary.

3.03 Contract Term Expiration — If a PACT Contract has not been canceled or terminated and if the Designated Beneficiary's rights under the PACT Contract have not been fully exercised within ten (10) years from the Projected College Entrance Date of the original Designated Beneficiary, or from the actual college entrance date for an accelerated student, reasonable effort will be made to locate the Purchaser. If the Purchaser cannot be located, PACT will presume the Redemption Value of the contract abandoned property and will transfer this amount to the Unclaimed Property Division of the State Treasurer's Office according to the Code of Alabama, Title 35, Chapter 12.

3.04 Contract Modifications — All requests by Purchasers for a modification of the PACT Contract provisions must be submitted in writing and must be accompanied by the applicable Administrative Fee. A list of these fees is available in the Disclosure Statement or at www.treasury.alabama.gov. Forms for PACT Contract modifications are available on line or by request from PACT.

3.05 Contract Prices — PACT Contract prices will be established by the Board for each enrollment period. PACT Contract prices do not include the Application Processing Fee, but do include a nonrefundable Account Maintenance Fee. After a Purchaser has entered into a PACT Contract, the PACT Contract price will not change, unless otherwise specified herein.

3.06 Termination of Contract Benefits — For a Four-Year University Contract, the contract terminates when the Designated Beneficiary uses all of the tuition hours or receives a baccalaureate degree, whichever comes first. All contracts terminate 10 years from the original Designated Beneficiary's Projected College Entrance Date.

3.07 Limitation on Number of Contracts Per Beneficiary — Only one PACT Contract is allowed per Designated Beneficiary.

SECTION 4

PACT CONTRACT PAYMENTS

4.01 PACT Contract Payments — PACT Contract payments are based on the age/grade of the Designated Beneficiary. Monthly payments are calculated based on an implied rate of interest and include a monthly account maintenance fee.

PACT Contract payment schedules are as follows:

- (a) A lump sum payment due in full on February 1; or
- (b) Monthly payments over a period of sixty (60) months. The payments shall begin on February 1 and will continue on a monthly basis thereafter until the PACT Contract is fully paid. The amount of the monthly payment is specified in the Participation and Payment Schedule. The sixty (60) month payment option is not available for beneficiaries who are in the eighth (8th) or ninth (9th) grade; or
- (c) Extended monthly payments beginning on February 1 and continuing on a monthly basis until May of the Projected College Entrance Date of the Designated Beneficiary. The amount of the monthly payment is specified in the Participation and Payment Schedule.

4.02 Change in PACT Contract Payment Schedule — The Purchaser may request a change in payment schedule any time during the enrollment period through the 10th day of February without incurring a fee. After this time, a fee will be charged. Additional amounts may be due when changing from the extended to the five-year monthly plan.

4.03 PACT Contract Payment Grace Period — All PACT Contract payments are due on the first day of the month and are delinquent after the 15th day of the month. A late fee is assessed for all delinquent payments.

4.04 PACT Contract Payment Methods — The following payment methods are available to the Purchaser:

- (1) Payment by coupon book;
- (2) Automatic deduction from a bank account; or
- (3) Payroll deduction if offered by employer.

4.05 Early Payoff — Purchasers electing a monthly payment plan may pay off the plan early without penalty.

4.06 Advance Payments — The Purchaser can make payments larger than the specified payment amount or more frequently than monthly.

SECTION 5

PACT CONTRACT BENEFITS

5.01 Contract Benefits — Benefits will be based on the contract purchased. For all PACT Contracts, the academic equivalent units for tuition hours and Qualified Fee payments will apply, if the college/university is not a semester system.

5.02 General — Only one PACT Contract is allowed per Designated Beneficiary.

5.03 Payment to Alabama Public Eligible Educational Institutions — The Purchaser or Designated Beneficiary must inform the Eligible Educational Institution that PACT Contract benefits are available. The institution has access to a website to verify eligibility. The institution will invoice PACT after the end of the official drop/add period. Payment is made directly to the Eligible Educational Institution for undergraduate tuition/Qualified Fees only.

5.04 Use of Benefits/Alabama Independent/Private, an Out-of-State or Foreign Eligible Educational Institution — Payment will be made based on the Current Tuition Value of the contract purchased. The payment will not exceed the actual cost of undergraduate tuition and Qualified Fees. Payment is made directly to the institution. A processing fee is deducted from the amount paid to the Eligible Education Institution each term.

Payment of PACT Contract benefits to these institutions will be made only when all of the following have occurred:

- (1) The Purchaser has submitted a written request providing information on the Eligible Educational Institution the Designated Beneficiary will attend. The request should be submitted no less than sixty (60) days in advance of the first academic term for which PACT Contract benefits are to be paid; and

- (2) PACT has received a valid invoice from the Designated Beneficiary's institution after the end of the official drop/add period; and
- (3) For foreign institutions, the institution must agree to accept payment in United States currency.

If the Designated Beneficiary takes course credit at a foreign institution through a United States Eligible Educational Institution and that institution invoices for the credits, payment will be made at the customary charges of the United States Eligible Institution.

5.05 Advancement of PACT Contract Benefits — PACT Contract benefits can be used up to three (3) years in advance of the Projected College Entrance Date of the original Designated Beneficiary. If the beneficiary advances in school after the PACT Contract is purchased or elects to take college courses while attending high school, there will be no adjustment in the PACT Contract payment schedule and no additional payment will be required. However, the ten year period for the use of benefits will commence on the advanced Projected College Entrance Date. The Purchaser should provide written notice 60 days in advance of intention to advance benefits and the PACT Contract must be paid in full.

5.06 Identification for Designated Beneficiaries — A list of Designated Beneficiaries is made available to the colleges/universities in the State of Alabama.

5.07 Payment of Benefits/No Adjustment — Any credit hours paid on behalf of a Designated Beneficiary reduce the remaining available credit hours under the PACT Contract, even if the credit hours are not counted toward a college degree. Once an invoice has been paid, there will be no adjustment to the beneficiary's account unless an error was made by the Eligible Educational Institution.

5.08 Payment of Backdated Invoices — The Purchaser is responsible for instructing the Eligible Educational Institution to invoice PACT on behalf of the Designated Beneficiary. PACT will not pay previous invoices submitted for payment more than a year from the date of the term when the benefits were received.

5.09 Scholarship — If the Designated Beneficiary receives a scholarship, the Purchaser can request any of the following:

- (1) For the institution to invoice PACT for tuition/Qualified Fees;
- (2) To transfer the benefits to a qualified beneficiary who does not have a PACT Contract; or
- (3) Cancellation of the PACT Contract. The Cancellation Fee will be waived.

SECTION 6

PACT CONTRACT PURCHASER/OWNERSHIP

6.00 Purchaser Eligibility — The Purchaser of a PACT Contract may be a natural person, a corporation, a trust, or a charitable organization. The Purchaser, if a natural person, must be nineteen (19) years of age or older, or must be represented by a court appointed conservator or guardian, or a trustee, or a designated custodian under the provisions of Title 26-2-20, Code of Alabama, 1975, (as last amended). (See Section 12 for Entities.)

6.01 Nonacceptance of the Purchaser's Application — A prospective Purchaser may be denied a PACT Contract if:

- (1) The proposed beneficiary is not an eligible beneficiary;
- (2) The Purchaser fails to submit the application during the enrollment period;
- (3) The Purchaser refuses to submit an application with complete information, or the Application Fee, or to sign the application;
- (4) The Board limits the number of PACT Contracts sold.

6.02 Purchaser's Rights — The following are rights reserved strictly for the Purchaser:

- (1) Voluntary cancellation of the PACT Contract or reinstatement;
- (2) Right to any Refund;
- (3) Right to make changes to the PACT Contract;
- (4) Right to restrict the use of PACT Contract benefits;
- (5) Online access to the PACT Account(s) (Available once an account has been established through a link at www.treasury.alabama.gov).

6.03 Number of Purchasers per PACT Contract — Only one (1) individual or entity may be named on each PACT application and in the PACT Contract as the Purchaser. Joint Purchasers are not permitted. However, a Successor Account Owner may be designated by the Purchaser.

6.04 Transfer of PACT Contract Ownership — All requests to transfer ownership of the PACT Contract to another qualified Purchaser must be submitted on the official form. If the current Purchaser has died and cannot furnish a signature, proof of death and a copy of the section from the will evidencing the authority to make the change or Letters Testamentary or Letters of Administration, must accompany the request for a change in Purchaser. A fee is charged for this service. This fee is waived for death of the Purchaser.

6.05 Successor Account Owner — If a Successor Account Owner is named on the account, the transfer of ownership will occur when a copy of the death certificate of the Purchaser is received. A form to name a Successor Account Owner can be requested from PACT. The Successor must meet the eligibility requirements for a Purchaser.

6.06 OnLine Access to PACT Accounts — The Purchaser is the only authorized person who can request online access to a PACT Account. A password is provided to the Purchaser for access and it is the sole responsibility of the Purchaser to keep it secure and confidential. PACT accepts changes to an account in writing signed by the Purchaser, or changes and forms submitted on line from the Purchaser from the authorized PACT website.

SECTION 7

DESIGNATED BENEFICIARY

7.00 Beneficiary Eligibility — An individual may be named the original Designated Beneficiary of a PACT Contract if such individual meets ALL of the following requirements:

- (1) The individual is under the age of eighteen (18) on the first day of the PACT enrollment period; and
- (2) The individual has not completed the ninth (9th) grade as of the first day of the PACT enrollment period in question; and

- (3) The individual has been born at the time the application is submitted. and
- (4) The individual is a U.S. citizen, a permanent resident alien, or a dependent of a U.S. citizen or of a permanent resident alien.

7.01 Beneficiary Substitutions — The benefits of a PACT Contract may be transferred to an eligible substitute beneficiary. A fee is charged for this service, and is waived for death of the beneficiary. All requests for a “Beneficiary Substitution” must be submitted on the official form which is available at www.treasury.alabama.gov.

To qualify, the substitute beneficiary must meet all of the following requirements:

- (1) The substitute beneficiary must be born; and
- (2) The substitute beneficiary must be an Immediate Family Member of the original beneficiary as defined by the Internal Revenue Code of 1986; and
- (3) The substitute beneficiary must not have an active Contract ; and
- (4) The substitute beneficiary must assume the same ten year period for the use of PACT Contract benefits as the original Designated Beneficiary.

Furthermore, if the original Designated Beneficiary has utilized PACT Contract benefits, the following additional requirements apply:

- (5) There must be at least fifteen (15) semester hours of tuition remaining; and
- (6) The beneficiary substitution must occur prior to graduation of the Designated Beneficiary.

If the substitution occurs before the Projected College Entrance Date of the Designated Beneficiary has been reached and the substitute beneficiary is older than the original Designated Beneficiary, an Actuarial Assessment will be assessed. In the event of a beneficiary substitution to a younger beneficiary, monies previously paid to PACT will not be refunded.

7.02 Use of Benefits - No benefits will be paid for the substitute beneficiary prior to the date of the substitution.

7.03 Designated Beneficiary – The Designated Beneficiary is the only individual eligible to receive PACT Contract benefits

SECTION 8

CANCELLATION/REINSTATEMENT

8.01 Voluntary PACT Contract Cancellation – The Purchaser can request cancellation of a PACT Contract at any time by providing a signed written request.

8.02 Involuntary PACT Contract Cancellation – A PACT Contract will be automatically cancelled if PACT Contract payments are 6 months (180 days) in default or if no payment is received within 45 days of the first payment due date.

8.03 Reinstatement of a Cancelled Account — If a PACT Contract has been cancelled, the Purchaser may request reinstatement. The request must be made by the Purchaser within 6 months of cancellation. The amount required to bring the account current includes the total of all outstanding payments to date, all outstanding fees and an Actuarial Assessment. The PACT Contract will be reinstated once the required amount has been received and beneficiary's right to receive PACT Contract benefits reinstated.

SECTION 9

REFUNDS/OVERPAYMENTS

9.00 General — Refunds will be paid to the Purchaser.

9.01 Refund Amount – PACT Contract refund amounts will be the Redemption Value of the PACT Contract. Interest refunded is subject to tax and may be subject to a federal tax penalty. Additional information is available in the Disclosure Statement under “Tax Considerations”.

9.02 No Refund — If the Designated Beneficiary achieves a baccalaureate degree in fewer than the maximum number of credit hours provided under a PACT Contract, a refund will not be available. As soon as a Designated Beneficiary attains a baccalaureate degree, and/or utilizes the total number of credit hours provided under the PACT Contract, the PACT Contract is terminated.

9.03 Refund in the Event of Death or Disability, Receipt of a Full or Partial Scholarship or Matriculation in a Military Academy of the Beneficiary — In any of these events, the Cancellation Fee will be waived.

9.04 Refunds for PACT Contract Purchased Prior to 1996 — For PACT Contracts purchased prior to 1996, cancellation based on death/disability of the Designated Beneficiary, or Matriculation in a Military Academy or foreign institution, will result in a refund as defined in the Rules of the year the PACT Contract was purchased. The refund is the contract purchase amount with the weighted-average tuition rate applied from the date of purchase to the cancellation.

9.05 Refund Resulting from Overpayment – Once a PACT Contract is paid in full, any overpayment will be refunded to the Purchaser.

SECTION 10

ROLLOVERS

10.01 Rollover to PACT from Another Qualified Tuition Program – PACT will accept rollovers from Qualified Tuition Programs, provided a PACT account has already been established and the appropriate form is completed.

10.02 Rollover from PACT to Another Qualified Tuition Program – A Purchaser may submit a written request for cancellation of the PACT Contract. A refund check will be issued to the Purchaser. The cancellation letter from PACT may serve as documentation for the transfer to another Qualified Tuition Program.

SECTION 11
SPECIAL PETITION

11.00 General — Any aggrieved Purchaser or entity desiring to petition for relief from the Rules, may do so by submitting a written notarized petition to the Board. The response to the petition will be in writing to the Petitioner and will be made within ninety (90) days of receipt.

11.01 – Requirements — The following information is required in the petition:

- (1) The name and address of the person requesting relief;
- (2) The specific nature of the relief requested and the specific Rule;
- (3) The name and address of Purchaser and Designated Beneficiary on the disputed PACT Contract;
- (4) The PACT Contract account number(s) in question;
- (5) The Social Security number/Tax Identification number of Designated Beneficiary and Purchaser;
- (6) The date and sworn signature of the petitioner.

SECTION 12
QUALIFIED ENTITIES

12.00 General — For the purpose of these Rules, the term “Entity” shall mean any corporation, trust, charitable organization, or any other business or organization which is not a natural person.

12.01 Application of the Rules — Unless specifically exempted herein, all Rules pertaining to Purchasers and Designated Beneficiaries apply.

12.02 Naming the Beneficiary — An Entity which purchases a PACT Contract is not required to name the Designated Beneficiary at the time the application is submitted. However, if the Entity submits an application for an unnamed beneficiary, a Projected College Entrance Date for the unnamed beneficiary must be specified on the application. The age of the unnamed beneficiary on the application will be the normal age for a beneficiary expected to enter college in the academic school year corresponding to the Projected College Entrance Date. For purposes of PACT, the unnamed beneficiary will be called either “John Doe” or “Jane Doe.” The beneficiary should be named not less than six (6) months prior to the Projected College Entrance Date specified by the Entity on the application.

12.03 Application — The application must be accompanied with Articles of Incorporation or the Declaration Page of the Trust, whichever is applicable. Furthermore, the Entity must provide its Taxpayer Identification number on the application, and the application must be complete in all other respects.

Athens State University • Chattahoochee
University • Jefferson Davis Community College • Wallace State Community College • State Technical College • Jacksonville State Community College • Snead State Community College • Northeast Alabama Community College • Southern Union State Community College • Alabama A&M University • Enterprise Community College • Auburn University • University of Alabama at Birmingham • Beville State Community College • Alabama State Community College • Faulkner State Community College • Southern Union State Community College • West-Shoals Community College • Lurleen State Community College • University of Alabama at Montgomery • Wallace State Community College • State Community College • Athens State Community College • Troy University • Jefferson State Community College • Wallace State Community College • Montevallo • Trenholm State Technical College • Central Alabama Community College • University of Alabama • Northeast Alabama Community College • Southern Union State Community College •